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SUGGESTIONS FOR THE STUDY OF MUNICIPAL FINANCE.

THE present wave of interest in city government should not be allowed to pass without yielding some permanent contribution to the material for scientific study. In connection with city affairs the topic most needing scholarly investigation is finance: the budget, classification of city functions, taxation, local monopolies, debt, and sinking funds are subjects which require a knowledge of their history and theory for adequate treatment. In these the investigator can perhaps contribute more to a practical discussion than he can in such a subject as the proper location of executive responsibility. Finance, too, is the very core of the municipal problem; and hence there are here some special advantages,—ready collected material, popular interest in the subject, suggestions from current discussions, and the opportunity of getting information from officials who have been aroused to take an interest in the larger aspects of their work.

Aside from the present strong interest in the matter, local finance has assumed an importance which demands increased attention from scholars. Once it consisted of the contribution of small sums by small groups of farmers, tradesmen, and artisans, and the expenditure of these sums for roads, bridges, schools, and the poor, under the immediate supervision of many of the givers. The insignificance and simplicity of this sort of finance, the dead monotony of it, and the difficulty of collecting information about it, have warranted its neglect. But no one can now say that local finance is insignificant or simple or monotonous. Its importance is best seen by a few figures. The Eleventh Census divides the cost of government in the United States as follows: *—

National government	\$352,000,000
States and Territories	77,000,000
Local bodies	486,000,000
Total	<u>\$915,000,000</u>

* *Wealth, Debt, and Taxation*, Part II., p. 406.

According to the latest obtainable figures, four cities — New York, Chicago, Philadelphia, and Boston — spend together one-third as much as the United States government. New York City spends seven times as much as New York State, and only one-third less than all the States and Territories put together.

This growth of municipal finance seems likely to continue. It is due to the crowding together of many people in a small place. Population is still steadily increasing, and the crowding goes on even more rapidly than the increase of population as a whole. Every labor-saving invention, every improvement in agriculture and transportation, every extension of trade, every new division of labor, every transfer of an industry from the little shop to the factory, — in fact, nearly everything which we call progress, — enables a larger non-agricultural population to exist and tends to concentrate that population in cities. In addition, the most urgent demand for the extension of State activity is laid on municipal government. The transfer of local monopolies to public operation would vastly increase the magnitude and complexity of municipal finance. If, by improved methods or otherwise, better government can be secured, — more honest and capable government, which can be safely trusted with greater responsibilities, — an extension of the functions of government is certain to follow. If government were perfect, it would be difficult to fix a limit to the luxuries and conveniences which a community could provide for itself better by its corporate activity than by private enterprise. In practice the badness of the government fixes the limit.

This development of local finance has been reflected, though feebly and tardily, in the literature of public finance. Until recently the budgets, expenditures, revenues, and debts which scholars considered were almost exclusively those of national or federated state governments. Local taxation received full consideration because of its close connection with the larger systems; but local expenditure and financial methods, very little. Recent writers are giving more attention to local affairs, though still in no proportion to their importance. Pro-

fessor Bastable* gives three short chapters to a general consideration of local finance, confining his attention chiefly to taxation and indebtedness; and he considers the finances of federated states (*e. g.*, New York) as local. The most satisfactory treatment of municipal finance for an American is by Professor H. C. Adams.† He discusses municipal debts thoroughly and municipal expenditures with great clearness and discernment, though not much in detail. Aside from works on local taxation and on city government in general, the literature of municipal finance is scanty and scattered.

I spoke above of the difficulty of getting information about local finance. That difficulty still remains, in this country at least, and constitutes a substantial reason why scholars are doing so little with the subject. Material, indeed, exists in great abundance. There are tons of auditors' and comptrollers' reports, treasurers' statements, debt statements, estimates, appropriation ordinances, proceedings of councils, mayors' messages, department reports, laws and judicial decisions, besides endless newspaper and periodical literature. But its crudity is appalling. City documents seem to be compiled to meet the requirement of the law or to make a job for the city printer,—anything except to give intelligible and desirable information. Then each country has its peculiar municipal system, and its own division of powers between local and central governments. In the United States each State has its municipal system. In so far as the municipalities of a State are left to themselves, they tend to have individual peculiarities. Thus, in studying local finance, we have a myriad of financial systems to take into account. Many of these, the typical ones at least, must be traced out, one by one, and the results put into shape for comparison, before the subject can receive any adequate general consideration. How should such introductory work be done? To suggest some answers to this question is the object of the present paper.

At the outset a choice must be made as to where the work shall begin. The easiest way is to consider the finances or

* *Public Finance*, 2d ed.

† *Public Debts*, Part III.

some part of the finances of a single municipality as they now are. Such a method has the advantage in practical utility and in popular interest. One can get much from officials and others which cannot be found in the records. A favorite way is to take a group of two or more cities, usually large ones, and compare them. But my own experience leads me to pronounce this difficult and unsatisfactory. Simply to master the details of the different systems requires much labor. Comparisons, though interesting and suggestive, prove nothing; and generalization from a small group is unsafe. If there is no haste to get general results, the best method is to consider a single municipality by itself, and treat it historically, tracing the assumption of one function after another by the government, the increase or decrease of expenditure for each function, the different phases in the history of the revenue, and the social conditions, growth of population, advance of industry, which are behind it all. The drawing of general conclusions is best left until material exists for the comparison of many cases.

The first topic to be considered would naturally be the political side of finance. This might be conveniently taken up under four heads: (1) external control, the restrictions and requirements imposed by the superior government; (2) the constitution of the city government as a whole; (3) the budget, the legislative side of finance; (4) financial administration, the executive side of finance. Under the last head should be considered the officers, boards, and committees which have to do with administering the finances, how they are chosen, what their powers are, and to whom they are responsible, and what accounts, reports, and other devices are used to secure honesty and economy.

The part of finance most important politically is the preparation of the budget, and this should be carefully studied. The vital question is, Who is responsible for it? But, if possible, the whole procedure, from the handing in of the estimates to the close of the accounts for the year, should be followed. Our city governments, thanks to the frequent statutory limit to the rate of taxation, prepare genuine

budgets, and are about the only governments in the United States that do. Congress and the State legislatures may pass any number of separate appropriation acts in a single session, without the trouble of viewing expenditures comprehensively in a budget. The federal government commonly has, or acts as if it had, a large surplus; while the State governments fix the rate on property at the point necessary to raise the amounts appropriated. When the tax rate for a city is limited by law, the limit is usually a narrow one; and the universal undervaluation of taxable property makes it narrower still. Sometimes it is excessively so, as is now the case with the city of Chicago, where every cent of taxes allowed by law must be levied. Hence revenues are fixed; and the expenditures for all purposes must be considered together, so as to be properly proportioned one to another.

The machinery of finance disposed of, the substance remains to be considered. Government, with all its paraphernalia, exists solely to serve as a means by which a community of people may jointly provide for themselves things which they cannot so well get as individuals. What has just been said applies to the tools, not the work itself. This vital part of the subject has received the least consideration in the past, and so merits special attention here.

It is in this stage of inquiry that the crudity of the material becomes most apparent. The great need is for better financial reports, and that need should be made known to officials at every opportunity. Statistics carefully worked out, like those of national governments, can seldom be had of cities, and almost never of other civil districts. A good financial report requires some labor and expense, skill in handling statistics, and a genuine desire to convey information. Most local governments lack one or more of these requirements. An example will show the room there is for improvement. The comptroller's report for Milwaukee for 1894 contains 290 pages; yet the only classification of expenditures in it is according to the funds on which bills were drawn, simply a list of the bills against each fund being given. The "general city" account, which includes over a million

dollars and nearly one-third of the entire expenditure, begins as follows:—

January 8.	Fred Saar <i>et al</i> , special improvements	\$300.00
	Fred Bartch, watchman	10.50
	H. Brusler <i>et al.</i> , work	76.50
	H. Faber <i>et al.</i> , work	566.61
	W. Schultz <i>et al.</i> , work thirteenth district . . .	685.65
	R. Hickey <i>et al.</i> , work, sweepers	168.00
	G. TeBrake, inspecting schools	112.00

And so the worthless matter is drawn out through 277 pages. The only satisfactory figures about the city's expenditures are contained in the department reports. Such is the financial statement issued by a city of 200,000 inhabitants.

Many cities and most of the small municipalities of the United States issue no other financial reports than lists of warrants of the kind just shown. The model report does not yet exist in this country. Even the best have serious defects. The auditor of Cleveland, Ohio, issues one which shows much thought in its preparation: its analysis of the city's finances is most elaborate; but complexity here, as in so many other cases, makes the document a volume of enigmas. Boston has the lead in the character of its city documents: the auditor's reports are better than anything else of the kind I have seen from an American city. Yet Mr. Nathan Matthews, Jr., who served as mayor from 1891 to 1895, gave the results of his experience as follows: "Called to the chief magistracy of the city without previous service in the government, and believing that the first duty of a public officer charged with the disbursement of millions of dollars of the public money was to search the printed reports of the city government for accounts that would show the cost, from year to year, of equipping and maintaining the various departments of municipal service, I was amazed to discover that practically there were none. I have, in consequence, been obliged to devote an inordinate amount of time to the work of securing this information and of arranging it in convenient form for use, the time thus spent amounting often to several hours a day for weeks at a stretch."* What must be the difficulty of the average

* Valedictory Address, pp. 20, 21.

citizen of the average American city in trying to understand his city's finances?

But intelligible reports are not enough. Our final study of municipal finance must be comparative. For that purpose we must have many financial statements, arranged with such identity of plan that they can be compared. Our material must be thrown into statistical form. It will be worth while, therefore, to consider somewhat carefully the features called for in municipal statistics.

For my own work, and that of a few students, I have outlined the following plan: (1) Clearly separate and distinguish the functions or activities of a local government. (2) Include under each function all the expenditure it occasions; also all the revenue it yields. (3) Divide both expenditure and revenue into ordinary and extraordinary, the latter including such items as the purchase of land, construction of permanent works, payment of debt, and receipts from loans or sales of land. (4) Combine the score or two of functions into groups according to their relation to each other. This makes the separation of functions a scheme of division and subdivision. (5) Give a statement of assets and liabilities.

Let us now consider each of these points by itself. The nature of the plan can best be seen by comparison with a different one,—that of the Eleventh Census or of some city.

1. The census* distinguishes fourteen items of "ordinary" expenditure. It follows that many functions of a city find no place in the census table. In numerous cases from a fifth to a third of the total is included under "miscellaneous." Several of the items that are given are too comprehensive to be satisfactory,—thus "new buildings, works, sites, and grounds," or "water-works or other undertakings." The census figures may be as full as space permitted, but a searching study of municipal expenditure cannot be based on them.

2. The census does not enable us to ascertain *all* the expenditure for each function. Part of the expense for fire protection, schools, is inseparably included under "new buildings," "care and repair of public buildings," and "salaries separately reported." The revenue secured from the different

* *Wealth, Debt, and Taxation*, Part II, p. 554 *et seq*

lines of activity is not given at all — The bulky municipal documents frequently fail in the same respect. Salaries, repairs, and new construction are often given apart from the services to which they belong. There are doubtless administrative reasons for this arrangement, but it is fatal to clear knowledge. Chicago sets the admirable example of placing receipts and expenditures together in parallel columns.*

3. The desirability of a distinction between ordinary and extraordinary expenditures and receipts is self-evident. To put the cost of constructing a sewer into the same column with the cost of cleaning it is to becloud hopelessly the question of the cost of sewerage. Boston and some other cities make the distinction somewhat roughly, as a result of restrictions on the borrowing power. The law in some cases does not allow loans for ordinary or "current" expenses, and in other cases names certain extraordinary expenses which may be met by loans. A separation in accounts follows, and a beginning is made in recognizing the required distinction. As to terms, popular language has used "current expenses" and "permanent improvements"; but these are clumsy, and not sufficiently comprehensive. The census uses "ordinary," but not its correlative "extraordinary." The city of Cleveland uses the two terms. The census and Cleveland both, however, give a wide significance to the term "ordinary," making it include everything except loans, refunds, investments, and the like. This use of the terms is to be regretted. The meanings given to "ordinary" and "extraordinary" in this article correspond nearly to the common use of those words and to their technical use by writers on finance. No other terms convey the desired ideas as well.

4. To group the items for objects of a like nature, and give a separate total for each group, obviously adds to the perspicuity of a statement. In scientific work, classification is the step preparatory to generalization. Facts and figures are like soldiers,—they must be organized before they can be used. In business accounts rigid classification of receipts and expenses is required, in order to discover where gains or losses

*So also in the budgets of Berlin and Paris, given by Dr. Albert Shaw in his *Municipal Government in Continental Europe*, pp. 471-473.

arise. The same should be required in city accounts, to show what the public services cost. The financial reports, however, reveal here and there only faint traces of classification. As the subject has received so little attention, a scheme for it is here given as a suggestion.

Existing classifications, both home and foreign, are based on the arrangement for administrative purposes, and so furnish no basis for a logical classification. At the risk of being pronounced an unpractical theorist, I shall take a theory of government as a starting-point.

Wagner* divides the functions of government into two classes: (1) the police duty, or the provision for public safety, *Rechts- und Machtzweck*; (2) promoting public welfare, *Cultur- und Wohlfahrtszweck*. Then he adds two others which are necessary to secure these: (1) the maintenance of the general government; (2) a financial system to provide resources for all the functions of government. So he would classify expenditures under the following heads: (1) maintenance of the government; (2) public safety; (3) public welfare; and (4) financial system.

Following Wagner in part, I would classify the functions of a local government as follows:—

- I. The immediate functions of self-maintenance, requiring a legislature, executive officers, a financial system, certain material equipment, elections, and the sustaining of suits in court.
- II. The ultimate function of meeting the needs of the community.
 1. Services to other governments; *e.g.*, collecting taxes, conducting elections.
 2. Care of certain classes of its residents: criminals, poor, defectives, sick.
 3. Providing for the public welfare.
 - a.* General services.
 - (1) Public safety: courts, police, militia, fire protection, inspection of food and buildings, regulation of dangerous pursuits, and sanitary measures.
 - (2) Public convenience. bridges, streets, parks, lighting and cleaning the same, sewers, and removing garbage.
 - (3) Higher objects: schools, libraries, public celebrations, documents, and monuments.

* *Finanzwissenschaft*, 1. 64-68.

- b. Quasi-private undertakings: water-works, gas and electric lighting, street railway, market, cemetery, wharf, and ferry.

For practical work the expenditures may be divided into six classes: (1) maintenance of the government; (2) care of certain classes; (3) public safety; (4) public convenience; (5) higher objects; and (6) quasi-private undertakings. As it would be difficult to separate the expense of services to other governments and would only cause confusion to do so, that item may be omitted.

Thus, in compliance with the other directions, the statistics for each class are arranged in some such schedule as the following, which is applicable to class I.:—

MAINTENANCE OF GOVERNMENT.	EXPENDITURES		RECEIPTS.	
	Ordinary	Extraordinary	Ordinary.	Extraordinary.
Legislature				
General Executive . .				
Financial system . .				
Legal (judgments, etc.)				
Elections				
Material equipment .				
Other				
Total				

The totals of all the classes are finally entered into a summary, also arranged as above. Receipts and payments connected with the debt are best kept out of "Financial system," and put into a seventh class. Interest on debt would be ordinary expenditure; payment of principal, extraordinary; receipts from money deposited in banks, ordinary; proceeds of loans, extraordinary. With every class care should be taken

to make the statement one of actual receipts and expenditures only, eliminating balances, transfers, temporary loans repaid the same year, and sinking fund operations.

To give the reasons for this classification and terminology would require much space and be of little value. Many features of it are already in use. Several are found in the Cleveland report. Philadelphia employs the term "Public safety," and gives it nearly the same meaning as here. "Quasi-private" is used by Professor Bastable* and in the same sense. Professor Goodnow† also uses the term, though in a broader sense.

5. A statement of assets and liabilities is a frequent feature of city financial reports. Such a statement indicates the amount of capital used by the city in fulfilling its various functions. The city's "plant" of land, buildings, machinery, furniture, and other property, should be classified on the same plan as its expenditures.

It would be Utopian to expect any considerable number of American cities ever to make their regular financial reports on such a plan as has been here outlined, or, indeed, on any other one plan. But such a plan is not, nevertheless, a Utopia. The federal census has made a good beginning in municipal statistics; and its figures for 1890, with all their defects, are a mine of information on local finance. If the statistics were made complete for the larger cities and for some typical small cities, villages, towns, and counties, the most essential thing would be accomplished. If some well-known organization, like the National Municipal League or one of the great universities, should undertake such a work, many city governments could probably be induced to co-operate. With suitable blanks furnished, the work of recasting the figures of the city's reports or accounts into the desired form might be done gratis by the city. It is even possible that the annual collection, compilation, and publication of such statistics might be made a paying private enterprise, like Poor's *Manual of Railroads* or the statistics of various industries.

* *Public Finance*, p. 233.

† *Municipal Home Rule*, p. 16.

With satisfactory data thus in hand, the investigator may enter on the real study of municipal finance. The figures are phenomena of which he is to discover the causes. A comparison between communities or between different years for the same community will reveal differences in the finances. These differences are to be explained. All abnormalities and irregularities are to be accounted for. Taking a single community which had grown from a village to a great city, one could trace its development, noticing the change in its financial system which accompanied each change in its population, in its wealth, or in its industries. A most interesting but elaborate work would be the comparison of local communities of all sizes by reducing the figures to a per capita basis. This would bring out more accurately the elements which size introduces into the finances of a city. Similar comparison could be made between industrial and residential cities, between cities resting on different industries, between Northern and Southern, Eastern and Western, American and European.

A few pages back I stated that the best way to begin a study in municipal finance was to take a single community, and treat it historically. I wish now to commend study of this kind to those who would make contributions to political science, and especially for research work in small schools. A government can most conveniently be studied by those who live within its jurisdiction. Nearly all the material that could be desired for it can be found at hand. Special knowledge of local conditions of great value may already be possessed or can easily be secured from others. A compilation of the financial statistics of any community for a series of years, with brief discussion of modifying or exceptional circumstances, would be a valuable contribution. A series of monographs of this sort for a sufficient number of typical communities would afford a solid basis for really scientific study of municipal finance.

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